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Report of the Board of Auditors on the audit of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010)

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the audit of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 to 31 December 2010.

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Letters of transmittal

31 March 2011

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 to 31 December 2010, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

(*Signed*) **BAN** Ki-moon

Mr. Liu Jiayi
Chair of the Board of Auditors
United Nations
New York

12 July 2011

I have the honour to present to you the audited financial statements of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the financial period 15 to 31 December 2010 and the report of the United Nations Board of Auditors thereon.

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
Chair, United Nations Board of Auditors

The President of the Security Council
of the United Nations
New York

Report of the Board of Auditors on the audit of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 to 31 December 2010

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I. Report of the Board of Auditors (audit opinion)

Report on the financial statements

We have audited the accompanying financial statements of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010), comprising the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities and reserves and fund balances as at 31 December 2010 (statement II) and the cash flow statement for the period from 15 to 31 December 2010 (statement III), as well as the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as he deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations escrow account as at 31 December 2010 and its financial performance and cash flows for the period from 15 to 31 December 2010 in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations escrow account that have come to our notice, or which we have tested as part of our audit,

have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations escrow account.

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom of Great Britain and Northern Ireland

12 July 2011

II. Report of the Board of Auditors (long-form report)

Summary

The Board of Auditors has audited the financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 to 31 December 2010. The audit was carried out through a review of the financial transactions covering the establishment of the account.

Audit opinion

The Board issued an unmodified audit opinion on the financial statements for the period under review, as reflected in section I.

Financial overview

The escrow account was established on 15 December 2010 by the Security Council in its resolution 1958 (2010). Pursuant to the resolution, the Administration transferred $151 million from the United Nations escrow (Iraq) accounts to a new escrow account, including $20 million in the administration fund and $131 million in the indemnification reserve fund.

As at 31 December 2010, total income (from interest) amounted to $6,000, while no expenditure was incurred. The total cash balance was $151 million, consisting of $20 million in the administration fund and $131 million in the indemnification reserve fund.

Reserves for end-of-service and post-retirement benefits

The financial statements do not reflect the end-of-service and post-retirement benefits for the staff fully involved in the United Nations escrow account, amounting to $1.757 million, as a separate line item. Instead, they were included in the account's operating reserve. In the Board's view, the separate disclosure will increase clarity and transparency.

Contingent liabilities

In line with the terms of Security Council resolution 1483 (2003), three letters of credit amounting to $4.2 million, which were cancelled but identified to have claims of delivery made prior to the expiry, were disclosed as contingent liabilities in the notes to the financial statements. The Secretary-General, in his letters to the President of the Security Council from 2008 to 2010, indicated that the three letters of credit should be treated in the same manner as those letters of credit with claims of delivery still outstanding, hence their recording as contingent liabilities.

Pursuant to Security Council resolution 1958 (2010), the Secretary-General was requested to take all actions necessary to terminate all residual activities under the oil-for-food programme. As a result, the remaining 43 outstanding letters of credit with an aggregate value of $101 million were cancelled as at 31 December 2010. However, the claims of the 43 letters of credit were not disclosed as contingent liabilities in the notes to the financial statements. The Board is of the view that there should have been consistency of accounting treatment for cancelled letters of credit for which claims still exist.

The Administration has since taken measures to address the findings noted during this audit, and corresponding changes are reflected in the revised financial statements.

A. Background

1. United Nations escrow (Iraq) accounts were established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007). In 2010, the liquidation of the oil-for-food programme was in its seventh year, following the adoption by the Security Council of resolution 1483 (2003).

2. The Security Council, in its resolution 1958 (2010), authorized the Secretary-General to establish a new escrow account for the purposes detailed below, to appoint independent and certified public accountants to audit it and to keep the Government of Iraq fully informed.

3. The Security Council authorized the Secretary-General to transfer $20 million and up to $131 million from the United Nations escrow (Iraq) accounts to the new escrow account established pursuant to Security Council resolution 1958 (2010) and to retain the total of $151 million in the latter account until 31 December 2016. The amount of $20 million was exclusively for United Nations expenses relating to the orderly termination of the residual activities of the oil-for-food programme, including the Organization's support to Member State investigations and proceedings related to the programme and the expenses of the Office of the High-level Coordinator. The amount of up to $131 million was reserved for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the programme since its inception. As the new escrow account expires on 31 December 2016, all the remaining funds must be transferred to the Government of Iraq by 31 December 2016, unless otherwise authorized by the Security Council.

4. In order to fully and effectively implement resolution 1958 (2010), the Security Council further authorized the Secretary-General to enter into all necessary implementing arrangements or agreements as soon as possible with the Government of Iraq: (a) to provide appropriate indemnification to the United Nations, its representatives, agents and independent contractors, with regard to all oil-for-food programme activities since its inception; and (b) to provide for a waiver of any future claims the Government of Iraq might have against the United Nations, its representatives, agents and independent contractors with regard to all programme activities since its inception. The Council further requested the Secretary-General to report to it after entering into the said arrangements or agreements.

B. Mandate, scope and methodology

5. The Board of Auditors has audited the financial statements of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 15 to 31 December 2010. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

6. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the escrow account as at 31 December 2010 and the results of operations and cash flows for the period then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules. The audit included a general review of financial systems and internal controls and an examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

7. The audit was performed together with the audit on the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the 12-month period ended 31 December 2010 of the biennium 2010-2011. The Board issued a separate report on the audit of the United Nations escrow (Iraq) accounts (see S/2011/479).

8. The present report covers matters that, in the opinion of the Board, should be brought to the attention to the Security Council. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately addressed in the report.

C. Findings and recommendations

1. Financial overview

9. As at 31 December 2010, total income (from interest) amounted to $6,000, while no expenditure was incurred. The total cash balance was $151 million, comprising $20 million in the administration fund and $131 million in the indemnification reserve fund. These funds were all transferred from the United Nations escrow (Iraq) accounts, pursuant to Security Council resolution 1958 (2010).

2. Indemnification reserve fund

10. The Administration, in accordance with Security Council resolution 1958 (2010), transferred $131 million as the indemnification reserve fund from the United Nations escrow (Iraq) accounts to the new escrow account. However, the Administration did not provide the Board with a breakdown of the figure and how the Administration arrived at it.

11. The Administration explained that it had held several meetings with the permanent members of the Security Council in 2010 and indicated the Organization's potential areas of exposure relating to the closure of the oil-for-food programme. However, owing to the highly confidential nature of the matter and the ongoing negotiations with the relevant stakeholders, the Administration considered that it would, at this stage, be against the best interest of the Organization to provide detailed information about the breakdown of the $131 million and how the figure was arrived at.

12. The Board recognizes that the amount of $131 million is within the limit allowed by the Security Council resolution and accurately discloses the transfer from the reserve of the United Nations escrow (Iraq) accounts. Although this does not affect the fair presentation of the financial statements, the Board is of the view that the breakdown of this figure and how the Administration arrived at it would have formed the basis for the Board to confirm the reasonableness of the information provided to the Security Council by the Administration. The Board will review this matter in the context of the next audit of the new escrow account.

3. Reserves for end-of-service and post-retirement benefits

13. The Board noted that, unlike the past practice in the United Nations escrow (Iraq) accounts, the end-of-service and post-retirement benefits of $1.757 million were not recognized as a separate line item but were included in the operating reserves in the financial statements of the new escrow account as at 31 December 2010.

14. The Board also noted that the explanations of the end-of-service and post-retirement benefits in different notes to the financial statements were not consistent. In particular, the information relative to the end-of-service and post-retirement benefits, including the composition, actuarial process and major assumptions as well as associated changes, was not disclosed in the notes.

15. Subsequently, the Administration made the necessary changes and revised the financial statements.

4. Contingent liabilities

16. Under the terms of Security Council resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its agencies with third parties in carrying out the activities of the oil-for-food programme were to be transferred to the Authority, which has since been succeeded by the Government of Iraq. Accordingly, three letters of credit in the amount of $4.2 million, which were cancelled but had been identified as having claims of delivery made prior to their expiry, were disclosed as contingent liabilities in the notes to the financial statements.

17. The Board noted that in accordance with Security Council resolution 1958 (2010), 43 outstanding letters of credit with an aggregate value of $101 million had been cancelled as at 31 December 2010, but the claims of those letters had not been disclosed as contingent liabilities in the notes to the financial statements.

18. In his letters to the President of the Security Council dated 25 July 2008 (S/2008/492), 1 May 2009 (S/2009/230) and 8 December 2010 (S/2010/619), the Secretary-General indicated that whatever option might be selected by the Security Council for concluding all outstanding issues under the oil-for-food programme, the three letters of credit that had been cancelled but to which the beneficiaries had made claims of delivery prior to the expiration date should be treated in the same manner as those letters of credit with claims of delivery still outstanding.

19. The Board is of the view that the nature of the 43 letters of credit is very similar to that of the other 3, as they may still expose the United Nations to potential risk of claims, as confirmed by the above statements. They should therefore be treated in the same manner. Should the oil-for-food programme ultimately be

required to absorb all or a portion of those claims, they will be met from the new escrow account.

20. The Administration subsequently made the necessary changes and revised the financial statements accordingly.

D. Disclosures by management

1. Write-off of losses of cash, receivables and property

21. As required by rules 106.8 and 106.9 of the Financial Regulations and Rules, the Administration informed the Board that there had been no write-off of cash, receivables or properties during the period from 15 to 31 December 2010.

2. Ex gratia payments

22. As required by financial rule 105.12, the Administration reported that there had been no ex gratia payments during the period.

3. Cases of fraud and presumptive fraud

23. The Administration informed the Board that there were no cases of fraud or presumptive fraud relating to the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period under review.

E. Acknowledgement

24. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Secretary-General, the Under-Secretary-General for Management, the Assistant Secretary-General and Controller, and their staff members.

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom of Great Britain and Northern Ireland

12 July 2011

III. Certification of the financial statements

1. The financial statements for the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 to 31 December 2010 have been prepared in accordance with financial rule 106.10.

2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information and clarifications for the financial activities related to Security Council resolution 1958 (2010) undertaken by the Organization during the period covered by these statements, for which the Secretary-General has administrative responsibility.

3. I certify that the appended financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), numbered I to III, are correct.

(*Signed*) Jun **Yamazaki**
Assistant Secretary-General, Controller

29 March 2011

IV. Financial statements for the period from 15 to 31 December 2010

Statement I

United Nations escrow account established pursuant to Security Council resolution 1958 (2010)[a]

Statement of income and expenditure and changes in reserves and fund balances for the period from 15 to 31 December 2010

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total 2010*
Income			
Interest income	1	5	6
Total income	**1**	**5**	**6**
Expenditure	—	—	—
Excess (shortfall) of income over expenditure	**1**	**5**	**6**
Transfers from other funds[b]	20 000	131 000	151 000
Reserves and fund balances, beginning of period	—	—	—
Reserves and fund balances, end of period	**20 001**	**131 005**	**151 006**

[a] See note 1.

[b] Represents transfers from the United Nations escrow (Iraq) accounts as authorized by Security Council resolution 1958 (2010).

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations escrow account established pursuant to Security Council resolution 1958 (2010)[a]

Statement of assets, liabilities and reserves and fund balances as at 31 December 2010

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total 2010*
Assets			
Cash and term deposits	45	45	90
Cash pool	19 956[b]	130 960[c]	150 916
Total assets	**20 001**	**131 005**	**151 006**
Liabilities	—	—	—
Reserves and fund balances			
Operating reserves[d]	1 757	—	1 757
Cumulative surplus	18 244	131 005	149 249
Total reserves and fund balances	**20 001**	**131 005**	**151 006**

[a] See note 1.

[b] Represents the share of the United Nations Headquarters cash pool, comprising cash and term deposits of $2,879,573, short-term investments of $4,690,372 (market value $4,735,575), long-term investments of $12,293,350 (market value $12,317,509) and accrued interest receivable of $92,233.

[c] Represents the share of the United Nations Headquarters cash pool, comprising cash and term deposits of $18,897,424, short-term investments of $30,780,931 (market value $31,077,578), long-term investment of $80,676,065 (market value $80,834,613) and accrued interest receivable of $605,289.

[d] Represents reserves for end-of-service and post-retirement benefits. See note 4.

The accompanying notes are an integral part of the financial statements.

Statement III

United Nations escrow account established pursuant to Security Council resolution 1958 (2010)[a]

Statement of cash flows for the period from 15 to 31 December 2010

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total 2010*
Cash flows from operating activities			
Net excess (shortfall) of income over expenditure (statement I)	1	5	6
Less: Interest income	(1)	(5)	(6)
Net cash from operating activities	—	—	—
Cash flows from investing activities			
Interest income	1	5	6
Net cash from investing activities	**1**	**5**	**6**
Cash flows from financing activities			
Transfers from other funds	20 000	131 000	151 000
Net cash from financing activities	**20 000**	**131 000**	**151 000**
Net increase in cash and term deposits and cash pool	**20 001**	**131 005**	**151 006**
Cash and term deposits and cash pool, beginning of period	—	—	—
Cash and term deposits and cash pool, end of period	**20 001**	**131 005**	**151 006**

[a] See note 1.

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1
United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) (statements I, II and III)

(a) The Security Council, in its resolution 1958 (2010) of 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities of the oil-for-food programme. The Council authorized the Secretary-General to establish an escrow account and retain $20 million in it until 31 December 2016 for the expenses related to the orderly termination of the residual activities, including the Organization's support to Member State investigations and Member State proceedings related to the programme, as well as the expenses of the Office of the High-level Coordinator created pursuant to its resolution 1284 (1999).

(b) In the same resolution, the Security Council authorized the Secretary-General to retain in the escrow account up to $131 million for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the oil-for-food programme since its inception, for a period of six years.

(c) Also in the same resolution, the Security Council requested that all funds remaining in the escrow account after six years be transferred to the Government of Iraq by 31 December 2016.

(d) These are the first financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010). The activities described in (a) and (b) above are shown in the "Administration" and "Indemnification reserve" columns, respectively, in the financial statements.

Note 2
Summary of significant accounting and financial reporting policies of the United Nations

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations, adopted by the General Assembly, the rules formulated by the Secretary-General as required under the Regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination (CEB). The Organization follows International Accounting Standard 1, "presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by CEB, as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council, or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium and consists of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period from 1 July to 30 June.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rates of exchange in effect at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow summary statement is based on the indirect method of cash flows as referred to in the United Nations system accounting standards.

(h) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management of CEB.

(i) Income:

(i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions

at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments and investment income earned in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds;

(vi) Miscellaneous income includes income from the rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, net gains on currency fluctuations other than for the current year's obligations, monies accepted for which no purpose was specified and other sundry income;

(vii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph (l) (iii) below.

(j) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements. Expenditures also include currency exchange adjustments arising from the evaluation of current-period obligations;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in paragraph (k) (v) below.

(k) Assets:

(i) Cash and term deposits represent funds in demand deposit accounts and interest-bearing bank deposits;

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized

premium or discount. The market value of investments is disclosed in the footnotes in the financial statements;

(iii) Cash pools comprise participating funds' share of the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in cash pools is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;

(iv) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, depending on the availability of cash resources;

(v) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vi) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(vii) Maintenance and repair of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Operating reserves include reserves for end-of-service and post-retirement benefits. Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Current-period

obligations remain valid for 12 months following the end of the financial period to which they relate;

(v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a funded defined benefit plan. The financial obligation of the Organization to the Fund consists of its mandated contribution at the rate established by the Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. As at the date of the current financial statement, the Assembly has not invoked this provision.

Note 3
Accounting policies for the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) (statements I, II and III)

The accounts of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) are maintained on a biennial cycle consisting of two consecutive years, the first of which shall be an even-numbered year. Annual financial statements are prepared for purposes of reporting usage of funds and expenditures to the Council.

Note 4
Operating reserves

Operating reserves comprise estimated liabilities for end-of-service and post-retirement benefits for applicable staff members. The benefits comprise those for after-service health insurance coverage and commutation of unused vacation days. The liabilities for the end-of-service and post-retirement benefits are determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm, and values determined as of 31 December 2009. The estimated liabilities as of 31 December 2010 are based on roll forwards of the 31 December 2009 values, and comprise $1,735,000 for after-service health insurance and $22,000 for unused vacation days, totalling $1,757,000. Operating reserves are included in the total for reserves and fund balances.

Note 5
Contingent liabilities

Further to Security Council resolution 1958 (2010), 43 letters of credit under the oil-for-food programme with outstanding claims of delivery in the amount of $101 million have been closed. In addition, three letters of credit in the amount of $4.5 million, which were cancelled, were identified to have claims of delivery made prior to their expiry. In respect thereof, and in accordance with Council resolution 1958 (2010), the Secretariat is entering into an agreement with the Government of Iraq under which the Government would provide appropriate indemnification to the

United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the programme since its inception and a waiver of any future claims that the Government of Iraq may have against the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the programme since its inception. With such an agreement, the United Nations is expected to be fully indemnified.